

## ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its June 2003 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.4% in 2003, 4.3% in 2004, 3.3% in both 2005 and 2006;
- U.S. nonfarm employment declines 0.1% in 2003, but grows 1.7% in 2004, 2.0% in 2005, and 1.7% in 2006;
- annual average U.S. civilian unemployment peaks at 6.0% this year and falls gradually to 5.5% by 2006;
- inflation remains benign at 2.3% in 2003, 1.5% in 2004, 2.2% in 2005, and 2.4% in 2006;
- the federal government deficit peaks at \$445 billion in 2004;
- and the current account balance deficit climbs steadily to \$664 billion by 2006.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in opposite directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. A major factor in each scenario is the war with Iraq. Both alternatives and their impacts on the Idaho economy are discussed below.

### OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 15% probability of occurrence. The assumptions of this scenario are virtually the same as those in the *Optimistic Scenario* that was presented in the April 2003 *Forecast*. Once again, the quick victory in Iraq boosts consumer and business sentiment. This, in turn, improves consumer spending, business investment, and the stock market. Especially welcome is the recovery to several elements of consumer spending that were hardest hit after September 11, 2001, such as spending on travel and recreation. On the business side, spending on equipment and software also show a noticeable improvement.

The differences between this scenario and the Baseline scenario are measurable. Real GDP, the most widely quoted barometer of the economy's health, grows about 0.4% faster in both 2003 and 2004 than in the baseline. Nonfarm employment, which has been disappointing during the recovery, is nearly 670,000 higher in 2003 compared to its baseline counterpart and about 1,121,000 higher in 2004. The unemployment rate peaks at 6.0%, then works its way down to its natural rate 4.5%-5.0% over the next three years. In the Baseline Scenario, the real unemployment rate improves slower, achieving 5.5% in 2006.

Driven by the stronger national economy, Idaho's economy also out performs its counterpart. This can be seen in both the employment and income forecasts. Idaho nonfarm income grows 0.5% this year, 1.6% next year, 2.5% in 2005, and 2.3% in 2006. Part of the reason for this strong showing is the goods-producing sector's employment begins growing in 2004 and continues growing through 2006. In the *Baseline Scenario* it declines in each year. Idaho personal income increases faster in this scenario. Specifically, Idaho nominal personal income advances 3.7% in 2003, 5.8% in 2004, 6.2% in 2005, and 6.8% in 2006. It rises 3.5% in 2003, 5.2% in 2004 and 2005, and 5.5% in the *Baseline*. Idaho real personal income is also higher in the *Optimistic Scenario* versus the *Baseline Scenario*.

**IDAHO ECONOMIC FORECAST**  
**BASELINE AND ALTERNATIVE FORECASTS**  
**JULY 2003**

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
<b>GDP (BILLIONS)</b>															
Current \$	10,446	10,868	11,552	12,207	12,898	10,446	10,911	11,638	12,366	13,215	10,446	10,822	11,354	11,924	12,495
% Ch	3.6%	4.0%	6.3%	5.7%	5.7%	3.6%	4.4%	6.7%	6.3%	6.9%	3.6%	3.6%	4.9%	5.0%	4.8%
1996 Chain-Weighted	9,440	9,662	10,075	10,408	10,747	9,440	9,699	10,147	10,525	10,931	9,440	9,623	9,930	10,235	10,511
% Ch	2.4%	2.4%	4.3%	3.3%	3.3%	2.4%	2.7%	4.6%	3.7%	3.9%	2.4%	1.9%	3.2%	3.1%	2.7%
<b>PERSONAL INCOME - CURR \$</b>															
Idaho (Millions)	33,605	34,776	36,584	38,485	40,619	33,605	34,840	36,843	39,134	41,792	33,605	34,715	36,164	37,789	39,711
% Ch	3.8%	3.5%	5.2%	5.2%	5.5%	3.8%	3.7%	5.8%	6.2%	6.8%	3.8%	3.3%	4.2%	4.5%	5.1%
U.S. (Billions)	8,929	9,255	9,727	10,247	10,825	8,929	9,277	9,798	10,383	11,092	8,929	9,235	9,605	10,036	10,526
% Ch	2.8%	3.6%	5.1%	5.3%	5.6%	2.8%	3.9%	5.6%	6.0%	6.8%	2.8%	3.4%	4.0%	4.5%	4.9%
<b>PERSONAL INCOME - 1996 \$</b>															
Idaho (Millions)	30,257	30,737	31,784	32,710	33,728	30,257	30,790	31,969	33,096	34,325	30,257	30,699	31,551	32,346	33,260
% Ch	2.4%	1.6%	3.4%	2.9%	3.1%	2.4%	1.8%	3.8%	3.5%	3.7%	2.4%	1.5%	2.8%	2.5%	2.8%
U.S. (Billions)	8,039	8,180	8,451	8,709	8,989	8,039	8,199	8,502	8,781	9,110	8,039	8,167	8,380	8,590	8,816
% Ch	1.4%	1.7%	3.3%	3.1%	3.2%	1.4%	2.0%	3.7%	3.3%	3.7%	1.4%	1.6%	2.6%	2.5%	2.6%
<b>TOTAL NONFARM EMPLOYMENT</b>															
Idaho	568,017	570,212	577,053	587,046	596,681	568,017	570,753	579,959	594,716	608,349	568,017	569,604	572,543	580,380	588,638
% Ch	0.0%	0.4%	1.2%	1.7%	1.6%	0.0%	0.5%	1.6%	2.5%	2.3%	0.0%	0.3%	0.5%	1.4%	1.4%
U.S. (Thousands)	130,776	130,615	132,836	135,431	137,750	130,776	130,854	133,514	136,552	139,600	130,776	130,343	131,535	133,551	135,406
% Ch	-0.9%	-0.1%	1.7%	2.0%	1.7%	-0.9%	0.1%	2.0%	2.3%	2.2%	-0.9%	-0.3%	0.9%	1.5%	1.4%
<b>GOODS PRODUCING SECTOR</b>															
Idaho	105,026	102,673	101,738	101,557	101,304	105,026	102,964	103,443	106,247	107,701	105,026	102,283	98,690	97,873	97,890
% Ch	-4.7%	-2.2%	-0.9%	-0.2%	-0.2%	-4.7%	-2.0%	0.5%	2.7%	1.4%	-4.7%	-2.6%	-3.5%	-0.8%	0.0%
U.S. (Thousands)	23,834	23,257	23,182	23,584	23,953	23,834	23,303	23,424	24,138	24,992	23,834	23,208	22,710	22,825	23,095
% Ch	-4.5%	-2.4%	-0.3%	1.7%	1.6%	-4.5%	-2.2%	0.5%	3.0%	3.5%	-4.5%	-2.6%	-2.1%	0.5%	1.2%
<b>NONGOODS PRODUCING SECTOR</b>															
Idaho	462,991	467,539	475,314	485,489	495,377	462,991	467,789	476,516	488,469	500,648	462,991	467,321	473,853	482,507	490,748
% Ch	1.1%	1.0%	1.7%	2.1%	2.0%	1.1%	1.0%	1.9%	2.5%	2.5%	1.1%	0.9%	1.4%	1.8%	1.7%
U.S. (Thousands)	106,942	107,358	109,654	111,847	113,797	106,942	107,552	110,090	112,415	114,608	106,942	107,135	108,825	110,725	112,311
% Ch	0.0%	0.4%	2.1%	2.0%	1.7%	0.0%	0.6%	2.4%	2.1%	2.0%	0.0%	0.2%	1.6%	1.7%	1.4%
<b>SELECTED INTEREST RATES</b>															
Federal Funds	1.7%	1.3%	1.7%	2.7%	3.0%	1.7%	1.5%	2.2%	3.5%	4.5%	1.7%	1.2%	1.2%	2.3%	3.0%
Bank Prime	4.7%	4.3%	4.7%	5.7%	6.0%	4.7%	4.5%	5.2%	6.5%	7.5%	4.7%	4.2%	4.2%	5.3%	6.0%
Existing Home Mortgage	6.5%	5.7%	6.1%	7.0%	7.2%	6.5%	5.8%	6.2%	7.3%	7.7%	6.5%	5.7%	5.9%	6.9%	7.3%
<b>INFLATION</b>															
GDP Price Deflator	1.1%	1.6%	1.9%	2.3%	2.3%	1.1%	1.7%	2.0%	2.4%	2.9%	1.1%	1.6%	1.7%	1.9%	2.0%
Personal Cons Deflator	1.4%	1.9%	1.7%	2.2%	2.4%	1.1%	1.7%	2.0%	2.4%	2.9%	1.4%	1.8%	1.4%	1.9%	2.2%
Consumer Price Index	1.6%	2.2%	1.5%	2.2%	2.4%	1.6%	2.3%	1.6%	2.5%	3.0%	1.6%	2.2%	1.1%	1.9%	2.3%

**Forecast Begins the FIRST Quarter of 2003**

## PESSIMISTIC SCENARIO

This scenario has been assigned a 25% probability of occurrence. In this scenario consumers are more tightfisted with their tax cuts than in the baseline. Thus, spending grows too slowly to lure business back into hiring and spending. As a result, layoffs continue through the summer as companies keep their belts tightened and service jobs continue to be exported. Businesses grow hesitant to adopt the newest technologies on faith, and instead must be convinced that investment will contribute to their bottom lines.

The Federal Reserve recognizes the tax cuts are not having their desired results, and takes matters into its own hands. In an effort to kick start the economy. It drops its federal funds rate in August to 1.00%. (Note: This forecast was prepared before the Federal Reserve lowered its federal funds rate on June 25, 2003.) The lower rates soften the decline of the housing market and help businesses improve their balance sheets. Although the economy never slips into a recession, real GDP growth in the second half of this year is markedly below the baseline's pace. It does gain some steam in 2004 when generous tax refunds spark a surge in spending. After growing just 1.9% in 2003, real GDP grows 3.2% in 2004, but slips back to 3.1% in 2005, and 2.7% in 2006.

In this *Scenario*, Idaho turns in a sub-par performance compared to the *Baseline Scenario*. For example, nonfarm employment growth is weaker in each year of the forecast. The goods-producing sector is particularly hard hit, sustaining significant declines through 2005. As a result, this sector's employment falls and remains below 100,000 over the forecast period. Not surprisingly, Idaho personal income growth is below the baseline's pace. Nominal personal income grows just 3.3% in 2003, 4.2% in 2004, 4.5% in 2005, and 5.1% in 2006. Real personal income rises 1.5% this year, 2.8% next year, 2.5% in 2005, and 2.8% in 2006.